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BUSINESS

SBA chief: Minority-owned businesses growing, but still lack access to capital

BY RAFAEL BERNAL - 02/07/23 10:36 AM ET

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Isabella Casillas Guzman attends a Senate Small Business and Entrepreneurship hearing.

Small Business Administrator Isabella Guzman warned on Tuesday that minority-owned small businesses' lack of access to capital is costing the U.S. economy hundreds of billions of dollars in economic output.

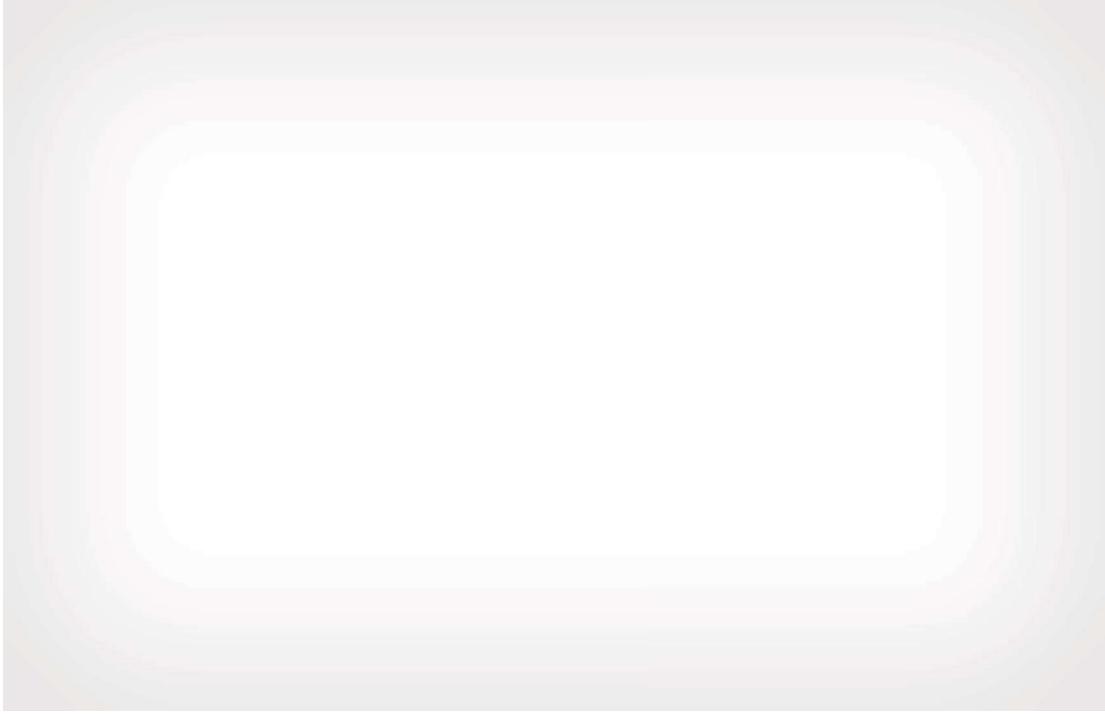
also produce around 4.2 million jobs.

"Basically, they could create more jobs, they could create more economic output, if they were invested in properly at the rate of their peers," she said.

Minority-owned businesses have historically lagged behind their peers in access to capital, and they were often overlooked as other sectors were credited with driving economic growth.

Over the past decade, however, Latino-owned businesses have grown ten times faster than non-Latino-owned businesses.

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"That increasing rate of entrepreneurship is reflected around the country. Now it's not just in the Southwest or Florida, Texas, California, it's in over 40 states that have seen growth in Latino-owned firms. And so it's time to make sure that they're able to access capital to grow," said Guzman.

Speaking just hours ahead of the president's State of the Union address, Guzman said keeping up with that changing entrepreneurial environment is a key issue for her agency.

"The changing face of entrepreneurship is something that the SBA [Small Business Administration] needs to adjust to in President Biden's commitment to make sure that we

“~~WHERE THEY ARE EVERY WHERE THAT THEY ARE SO THAT THEIR IDEAS CAN BECOME A REALITY AND THAT~~
they’re able to create jobs, which is what so many of them do so well.”

One particular area where minority-owned small businesses were short-changed recently was in distribution of Paycheck Protection Program (PPP) loans during the coronavirus pandemic.

A 2021 paper by the National Bureau of Economic Research (NBER) found that Black-owned businesses were less likely to get PPP loans from small- and mid-sized banks, especially in areas with higher “racial animus.” That study, conducted between April 2020 and February 2021, showed that Black business owners had much higher success rates in obtaining loans when going through the more automated processes used by larger banks and fintech lenders.

The NBER study was conducted after the Trump administration announced changes to the PPP structure to improve access for small and minority-owned businesses.

“In that program alone, we saw early on that Black and Latino firms were unable to access PPP at the same rates or at all,” Guzman said.

“And during the Biden-Harris administration’s first year, we made efforts to reverse those trends, get funds into the smallest of the small businesses. And as a result, even the GAO [Government Accountability Office] report findings concluded that the SBA was able to reverse those trends and reach all of those underserved businesses,” she added.

According to the GAO report, “lending in traditionally underserved counties was proportional to their representation in the overall small business community,” although businesses with fewer than 10 employees remained underserved by the program.

More recently, high inflation and a tight labor market have also sent shudders through the small business community.

According to Guzman, many have been quick to adjust, but serious challenges remain.

“As I travel around the country and talk to small businesses of all backgrounds, there’s amongst entrepreneurs — they’re the most hopeful people you could ever meet, right?”

“They have this idea or product or service that they want to make sure comes to life in their community. And, and in many cases, you know, that persistence is what has helped them

agency's resources, which are designed to help owners adjust their models in the face of challenges such as inflation or shifting supply chains.

"In terms of specifically Latino entrepreneurs and other underserved communities, Black entrepreneurs, people of color, women, rural communities, or veteran communities, startups overall, we've really tried to focus on making sure that our network, our knowledge networks, and our Community Navigators — which were launched during the American Rescue Plan — funding by President Biden have the ability to bring awareness and connection for entrepreneurs to resources that exist at the federal level so that they can be successful," she said.

The Community Navigator Pilot Program is a grant program that funds local community groups to engage with small businesses and give them advice on how to access resources available to them.

While the Biden administration is seeking to expand its reach to underserved small businesses, some communities remain harder to reach.

"Within the Native American community, especially those that are on tribal lands, there are unique challenges in accessing capital," said Guzman, adding that the Biden administration has launched an initiative directly targeting the lack of access to capital for Native businesses.

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